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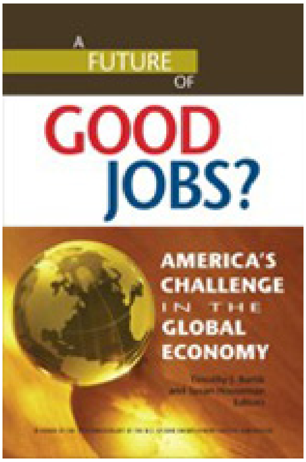
Improving Job Quality: Policies Aimed at the Demand Side of the Low-Wage Labor Market



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Improving Job Quality

Policies Aimed at the Demand Side of the Low-Wage Labor Market

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The last decades have been anxious ones for U.S. employees. The sources of worry are not hard to identify: for most workers, wages have not grown even at the pace of productivity gains, health and pension benefits are harder to obtain, and job security seems increasingly shaky. For many employees, stress levels and work/family pressures have ratcheted up as the job market becomes increasingly difficult to navigate. In addition, at the bottom of the labor market, too many adult Americans continue to find themselves in jobs that pay poverty wages and provide little in the way of a future.

There are diverse explanations of these trends, some of which are well beyond the scope of this chapter. But one central concern is the decisions firms make about how to organize their work. As we will see, employers have alternative choices regarding their employment and human resource systems, and these choices have significant implications for the quality of jobs. With this in mind, it is worthwhile to think about what kinds of policy interventions might succeed in tilting those choices in the direction of better quality employment. Unlike traditional employment and training programs that focus on the supply side, that is, on changing the characteristics of individual workers, this chapter takes up policies that operate on the demand side to influence firms.

The chapter begins by briefly laying out the facts regarding trends in job quality. It then develops a framework for thinking about interventions on the demand side of the market. The remainder of the chapter discusses various policy options. These include efforts to assist firms to improve the quality of the work they offer, as well as interventions intended to develop a set of standards and constraints regarding the nature of work that can be offered.

TRENDS IN JOB QUALITY

How many adults work in what might be termed "bad" jobs? The answer to this question obviously depends on definitions, and there is no common standard. One simple and compelling approach is to focus on wages since these are obviously the most important single consideration. In 2006, the percentage of adults in the private sector who were working for poverty-level wages or less was 18.4 percent, a figure that is strikingly high, particularly given the strength of the job market and the widespread view that this standard is too low an estimate of what it takes to live a decent life.[1] Among government workers (who represented 18.3 percent of employment), the rate was a surprisingly high 10.3 percent (a finding that points directly to a policy recommendation). For men in the private sector the rate was 12.4 percent, and for women 22.1 percent. These numbers change only marginally if they are weighted by the number of hours each person works.[2] This order of magnitude is confirmed by a quite different data source, the National Compensation Survey of Occupational Wages. Conducted in 2001, it surveyed firms as well as state and local governments. In these data, 21.6 percent of all hours worked were in jobs that paid less than two-thirds of the median wage and 16.3 percent were in jobs that paid less than $8.00 an hour (Bernstein and Gittleman 2003).

Unfortunately, recent evidence suggests that the fraction of jobs that are in the lower end of the earnings distribution is growing. The shape of the wage distribution is thinning in the middle and growing at each of the two tails. In one study, Autor, Katz, and Kearney (2006) ranked occupations by their median earnings for the period 1980–2000. For the first 10 years (1980–1990) they find that employment grew most rapidly in higher paid occupations. However, for the second decade they identify a polarization: employment grew rapidly in both the best and the worst paid occupations while it declined in the middle range. Other studies find a similar pattern (Acemoglu 1999).

Adding to the concern is evidence that adults who find themselves in low-wage employment have difficulty moving to higher rungs of the labor market. One study found that among low earners in six years starting in the early 1990s, a period of remarkable economic strength, only 27 percent raised their incomes enough to rise consistently above the poverty line for a family of four (Holzer 2004). A more recent study using the Panel Survey on Income Dynamics came to a similar conclusion. Looking at low earners in the years 1995–2001, the researchers found that 6 percent of those working full time and 18 percent of those working part time in any year had dropped out of the labor force by the next year. Among those who did stay in the workforce, 40 percent experienced either a decrease or no change in their earnings (Theodos and Bednarzik 2006). The experience of welfare reform suggests a similar pattern: the earnings for mothers who leave welfare and enter the job market remain very low over time (Acs and Loprest 2004).

There is also reason to be worried about what is happening further up the distribution in the middle range of jobs that seem to be disappearing. Many of these jobs are located in manufacturing, although other sectors are also experiencing losses. To get a flavor of the problem, consider recent reports of changes at Caterpillar, one of the nation's largest manufacturers. In the past, a typical worker received a package that averaged about $25 an hour in pay; with benefits included the package was valued at $40 an hour. Under the new contract, new employees would receive $12 an hour and an additional $9 per hour in benefits. Explaining this shift, a group president at the firm commented that, "There is a balance that must be struck between being competitive and being middle class" (Uchitelle 2006).

The loss of these good manufacturing jobs is obviously due to a range of forces, notably trade and technology, which are beyond the purview of this chapter. These are highly charged economic and political issues, and there is considerable divergence of opinion regarding this trajectory and what to do about it. However, as we will see, there are possible labor market interventions that might prove helpful in improving the job growth and retention picture in this sector.

Mapping the Distribution of Low-Wage Employment

If we are going to consider interventions on the demand side, it makes sense to try to understand what kinds of firms are most likely to be sources of low-wage employment.[3] As before, I define low-wage workers as those who are earning at or below the hourly wage needed to lift a full-time, full-year worker with a family of four (including two children) above the poverty line.

Table 6.1 shows the industry distribution of low-wage and non-low-wage earners in the private sector. Over one-third of private low-wage workers are concentrated in retail, food and drinking, and accommodation. This concentration poses a significant challenge because, as we will see, few employment and training programs are aimed at these sectors.

Adding to the complications that these data pose for program design is the distribution of firm size among low-wage workers. Table 6.2 shows this distribution (in the private sector). It is important to note that the firm size measure includes employees at all locations of the respondent's employer and hence is an overstatement of the size of the actual establishment where the respondent works.

As is apparent, low-wage workers are more likely to be found working for small employers than are better paid employees. This is consis-

Table 6.1 Distribution of Private Sector Low-Wage and Non-Low-Wage Workers (%)

	Low-wage	Non-low-wage
Construction	4.7	8.2
Manufacturing	11.4	18.3
Retail	20.3	10.1
Professional services	9.2	12.3
Food and drinking services	12.5	2.4
Health	9.9	13.0
Agriculture	2.5	0.5
Accommodation	2.6	0.9
Other	26.9	31.4

SOURCE: 2006 Outgoing Rotation Group. Data are limited to the private sector and are weighted by the sample weight and by hours worked. See notes for additional explanation of data preparation.

Table 6.2 Distribution of Low-Wage and Non-Low-Wage Employees by Firm Size (%)

Number of employees	Low-wage	Non-low-wage
<10	23.0	10.3
10–24	14.7	9.7
25–99	17.8	15.4
100–499	13.4	16.7
500–999	4.6	6.8
1,000+	26.3	40.8

SOURCE: March 2006 Current Population Survey. The data are weighted by hours worked in addition to the sample weight.

tent with the long-standing pattern that large firms pay better than do small ones (Hollister 2004).[4] More specifically, 40 percent of low-wage workers are in firms with 24 or fewer employees, and well over half are in firms with fewer than 100 workers. This concentration in small firms has significant programmatic implications that are often overlooked. In general, small firms are difficult for government programs to work with because the managers have little in the way of slack time and resources (and, not incidentally, are often more suspicious of the government than are larger organizations). In addition, many of the more innovative programmatic ideas, such as constructing career ladders, are of limited applicability in smaller organizations. Finally, it is very resource intensive for programs to work with large numbers of small employers, and the payoff, in terms of the number of people affected, is limited.

Taken together, the implication of the industry and employer size distribution of private low-wage workers is that an effective public policy approach to the issue will need to incorporate multiple strategies. Policies aimed at directly working with employers may be less effective in some parts of the labor market, and standard setting efforts may be relatively more important in these sectors.

The Case for Demand-Side Interventions

Public policy aimed at addressing the large low-wage sector has traditionally emphasized education and training, that is, supply side programs aimed at improving people's human capital. Similarly, labor market policy directed at middle-layer job loss has also focused upon retraining and job search. These foci make sense and are certainly appropriate. Consider, for example, the evidence regarding the distribution of basic skills. A 2003 survey of adults in several OECD nations directly measured literacy skills. The survey in the United States was a random representative sample of 3,400 adults and directly tested the respondents on their achievements in three types of literacy: prose skills, document interpretation skills, and numeracy (OECD and Canadian Ministry of Industry 2005). Five levels were identified, with a level one score signifying very low-level skills. In the United States, 20 percent of adults scored at level one in both prose and document skills, and 26 percent scored at level one in numeracy skills. For comparison, in Canada the fractions at these levels were 14 percent, 15 percent, and 19 percent. In Norway they were 7 percent, 8 percent, and 10 percent (p. 50).

Improving human capital is therefore appropriate but it is incomplete. There is also an important case to be made for interventions on the demand side aimed at providing incentives and assistance to firms to improve the quality of their jobs. There is a broad array of evidence that the employment practices of firms, even after controlling for the characteristics of the labor force, make a difference in the employment outcomes of employees. For example, we know that workers do better if they are employed in large firms, in firms that are unionized, in firms that invest in training, and in firms that pay wage premiums above the going rate. As an example of research along these lines, a study of the earnings mobility of low-wage workers that combined longitudinal household data on individuals with data on firms taken from the Unemployment Insurance database found that nearly half of all transitions out of low-wage employment were associated with changes in employers. Because of the longitudinal fixed effect study design, this pattern could be attributed to the characteristics of the firm as opposed to the human capital attributes of the employees (Holzer, Lane, and Vilhuber 2004). Scholars have also asked why some firms pay higher wages than others and have controlled for supply-side variables such as the occupational distribution and human capital endowments of the labor force. In two such studies, Goshen (1991) finds that a firm effect accounts for between 31 and 51 percent of the variation across firms in wages, and Davis and Haltiwanger (1991) find strong plant-level effects in their wage-determination models.

There is some evidence that firms exercise a nontrivial degree of discretion over their employment practices (and hence, by extension, that policy can influence these choices). One kind of evidence is purely anecdotal and is based on comparisons of the policies of different employers operating in the same product market. Many commentators point to the contrasting employment policies of Costco and Wal-Mart, but one might as readily highlight the employment situation of housekeepers in unionized and nonunionized hotels.

Underlying the view that firms can exercise discretion is the idea that human resource policies tend to cluster together in bundles. These bundles characterize distinctive employment strategies. In the popular discussion, this idea is captured by a distinction between "high road" and "low road" policies, but the concept is more subtle than this. The idea of human resource bundles first emerged in research on the automobile industry, where scholars noted that Japanese firms such as Toyota systematically combined job rotation, team production, and high levels of training into a coherent set of policies that improved both productivity and quality. This was contrasted with a quite different bundle of policies which then characterized American automobile producers. This example is instructive in another way: over time, American auto manufacturers studied and learned from Japan and adopted their human resource strategies. This is an important point because it demonstrates that firms, faced with pressures of various kinds and provided with information and support, can in fact respond by implementing new approaches to how they organize their workforces.

Additional data enable us to understand how clusters or bundles of human resource practices are related to low-wage work. This survey, conducted in 2002, is a representative sample of the for-profit private sector workforce (Bond 2003).[5] In these data, 21.5 percent of the workforce is low wage according to the definition used earlier. This figure is very close to the census figure. It is also noteworthy that other employment-related outcomes cluster with the wage pattern. For example, among the low-wage workers, 55.1 percent did not receive health insurance from their employers. In addition, low-wage employers are much less likely to provide training than are other firms: 46.5 percent of low-wage employees reported that their firms offered training compared to 72.3 percent of the rest of the labor force.

This pattern is replicated in other data. Although generalizations are difficult, it is fair to conclude that a central issue is that many companies are not prepared to invest in the skills and careers of their employees, particularly their lower-paid employees, as part of their overall competitive strategy. Indeed, there is extensive evidence that employer investment in training is disproportionately directed toward higher-wage and better-educated workers and away from so-called "frontline" employees. For example, according to the National Household Survey in 1995, among employees in the bottom quintile in earnings, 22 percent received formal training from their employers, whereas among workers in the top income quintile the rate was 40 percent (Ahlstrand, Bassi, and McMurrer 2003, p. 3).

A final question is whether it is in fact reasonable to believe that work can be reorganized so that today's adult low-wage workforce can move into better jobs. Given the pervasive emphasis on the earnings gap between college and high school graduates, an observer might be forgiven for thinking that there is very little room in the job market for people with less than a four-year college degree. This is not correct. It is important to understand that there is a very large layer of jobs that require skills at roughly the level of a two-year associate's degree. According to projections by the Bureau of Labor Statistics, 28 percent of all job openings in the period 2004–2014 will be for jobs that require some college but not a degree. This is a larger figure than the expected openings for jobs that require college degrees (Hecker 2005). Another way of making this point is to note that the occupational category that is projected to generate the largest number of jobs between 2000 and 2014 is "professional and related occupations," and that of those who held these jobs in the 2000–2005 period, 40.5 percent had some college but less than a college degree. Other projections suggest that there will be a number of new jobs available for skilled blue-collar work (machine maintenance, technicians, repair jobs, and the like), and that these too require education in the "some college" or associate's degree range (Goldberger, Lessell, and Biswas 2005).

A FRAMEWORK FOR THINKING ABOUT POLICY

There are a wide variety of tools available for influencing how firms organize their employment systems, and a framework or classification system is helpful. One important distinction is between what might be termed standard setting on the one hand and technical assistance or programmatic interventions on the other. Examples of the former include unionization, minimum and living wage legislation, and community benefit agreements. Examples of the latter are sectoral training programs, labor market intermediaries, and variants of manufacturing extension services.

A second useful distinction is between interventions aimed at improving the quality of existing jobs ("making bad jobs good") and interventions aimed at creating, or retaining, more good jobs. Examples of the first set of policies are efforts to raise wages or to create job ladders in the existing job base, for example, in the retail, health, or hospitality industries. Examples of the second category are economic development programs that utilize labor market tools to attract good jobs or to assist existing firms to compete more effectively and hence to maintain the base of good jobs that already exist.

Table 6.3 organizes possible policy levers in terms of these distinctions. The distinctions in this table are to some extent arbitrary, but they do represent a useful way of thinking about the universe of policy interventions on the demand side. One important question, addressed

Table 6.3 Policy Matrix

	Standard setting	Programmatic
Make bad jobs good	Minimum wage	Career ladders
	Living wages	Intermediaries
	Unionization	Sectoral programs
Create more good jobs	Community benefit agreements	Extension services
	Managed tax incentives	Sectoral programs
		Consortia or partnerships under business or union auspices

below, is whether there is fruitful interaction across the different boxes. For example, when tax incentives are restricted to jobs above a certain quality threshold, it would make sense to provide programmatic assistance to firms to enable them to meet the standards.

Several additional important questions should be kept in mind; one is scale. The employment and training field is full of examples of small boutique programs that seem successful but which either are inherently limited in their impact or have proved very difficult to replicate. It is therefore important to ask to what extent any potential innovation can have an appreciable impact on the problem. The second difficult question is sustainability. Promising programs are often short-lived and prove dependent on unreliable outside funding or a particular confluence of circumstances that led to the program in the first place. Developing mechanisms to build in greater stability is an important challenge.

Standard-Setting Policy

The goal of standard setting is to set a floor on the quality of jobs. The great attraction of this approach is that it is relatively straightforward and has the potential to reach a scale well beyond what is possible with more programmatic interventions.

Standard-setting policy can be thought of as two subgroups: policies put in place by government (such as minimum wages), and others due to private action (such as unions). Turning first to public policy, by far the best known standard aimed at the low-wage labor market is the minimum wage. The federal minimum wage is currently $5.85 an hour. As is well known, there has been a long-term erosion in its real value, and until the recent modest increase it was at its lowest level since 1955. As a fraction of the pay of the average private sector nonsupervisory worker, it was at the lowest level since World War II (Bernstein and Shapiro 2006). In the face of this stagnation, 29 states now have set minimum wages above the federal level. The political power of this issue was demonstrated in the recent midterm elections when six states voted to increase their minimum wage.

Congress recently increased the minimum wage to $7.25 an hour to be achieved in steps by 2009. Exactly how many people would get a wage increase in 2009 depends, of course, on assumptions about inflation and wage growth. It is important to note, however, that the $7.25 an hour standard is still well below the poverty wage for a family of four with one bread-earner working full time and full year.

The contours of the standard debate regarding the minimum wage are familiar. Opponents argue that an increased minimum leads to job loss as firms lay off employees whose productivity falls beneath the standard, whereas advocates argue that the magnitude of the job loss is low and the gains that accrue to people who remain working at the higher wage well exceed any losses. In recent years the balance of opinion has shifted to the latter view, at least for increases in the range under discussion.

Although the discussion of the minimum wage is typically framed in terms of its impact upon the wages and employment of directly affected employees, a broader view suggests that more is at stake. One way to think about this is to ask why one would support a minimum wage instead of relying entirely on a more generous Earned Income Tax Credit (EITC). A simple view would be that the EITC would raise incomes without having the negative employment consequences of the minimum wage. The answer goes to the broader role of the minimum wage in the job market. By establishing a floor, a minimum wage may prevent low-wage employers from competing on the basis of wage costs with firms that are willing to pay above the minimum. Such competition, if permitted, would drive down the overall wage structure. The EITC does not play this role and, in fact, permits firms to maintain low wages and substandard employment terms. This is not a criticism of the EITC—it is an important program with many virtues but it is not a substitute for the kinds of standards embodied by the minimum wage. There is, unfortunately, very little research that addresses this channel of the minimum wage, and it does seem doubtful that the federal minimum at its current low level is important in this regard. However, in principle this is an important part of the case for an effective and binding minimum wage.

Related to this line of argument, in the sense that the minimum wage is about more than just wage levels, is the view that an increased minimum wage would lead firms to adopt a different bundle of human resource practices. On one level this idea has been around for a long time and, in the context of the union literature, has been characterized as the union "shock effect." The argument is that an enforced higher wage prompts a firm to reconsider and redesign its employment and production system in order to increase efficiency and obtain the productivity that would sustain the higher wage. More recently, economic theorists studying how firms make decisions about how much training to provide their workforces have argued that a higher minimum wage will compress a firm's internal wage structure and lead to higher levels of training for those at the bottom (Acemoglu and Pischke 1998).

Unionization

In addition to the minimum wage, the other long-standing and obvious strategy for improving employment conditions in the low-wage labor market is unionization. The potential of unionization is suggested in Table 6.4 and shows the fraction of various groups that are low-wage workers according to the definition used earlier.

It is obvious that union status makes a considerable difference in the probability that an employee will work for low wages. These results hold in a regression analysis that also controls for industry in addition to the human capital and demographic variables.[6]

Some recent research suggests that the apparent gains to be had by unionization is an artifact of various forms of selection bias that cannot be dealt with by the standard controls. For example, better motivated workers may join unions, or unions might succeed in organizing firms which in any case would have paid high wages. Related to this is the view that the union/nonunion wage gains shown in Table 6.4 reflect the success of unions in the past but are not reflective of what they can accomplish now (DiNardo and Lee 2004).

These arguments have technical problems and are inconsistent with other evidence regarding the role unions play in reducing inequality (see, for example, Card, Lemieux, and Riddell [2003]).[7] But whatever their merits in the higher reaches of the job market, these arguments are not credible in the low-wage sector, where the relevant personal characteristics of the workforce do not vary a great deal, and similar national chains pay quite differently depending on their union status. The common sense pattern in the table is confirmed by accounts of recent union contracts in low-wage industries. For example, according to HERE, the Hotel Employees Restaurant Employees union, the average unionized hotel maid earns $13 an hour, while the national average for the job is $8.67 (Marshall and Greenhouse 2006).

Table 6.4 Percentage Low Wage By Union Status, Private Sector (%)

	All	Men	Women	High school degree or less	Some college	White	Black	Hispanic
Union	6.9	3.6	13.3	9.7	4.1	6.0	10.1	16.2
Nonunion	19.5	14.8	24.6	32.3	15.7	18.4	29.5	37.5

SOURCE: 2006 Census Outgoing Rotation Group. See notes for description of data preparation.

Unionization in low-wage, particularly immigrant, sectors has been one of the few bright spots for unions in recent years. The success of Justice for Janitors is one notable example, and a similar campaign—Hotel Workers Rising—is under way in the tourist sector. The unions involved in these campaigns—the Service Employees International Union (SEIU), and the Union of Needletrades, Industrial and Textile Employees and HERE, which have merged to form UNITE HERE—are explicitly focusing much of their organizing strategy on the low-wage, often immigrant, labor market. SEIU has been one of the few unions in America to gain membership in recent years. Other unions, such as the American Federation of State, County, and Municipal Employees (AFSCME), have organized low-wage workers in the public sector with some success.

The real concern about the role unions might play in reducing low-wage employment is not whether, when successful, they improve employment conditions but rather the fact that their success rate is poor. The rate of private sector unionization has fallen from 25 percent in 1973 to just over 7 percent today. Although data on success rates in organizing drives are hard to come by, recent research shows that of those organizing drives that lead to an election (and only about half of such drives even get to this stage), only one in five result in a first contract (Ferguson 2006). Later in this chapter I will discuss how this issue might be addressed.

As the union movement has struggled, there has been growth in alternative modes of organizing and representing low-wage workers. Of particular interest is the emergence of strong community organizations and worker centers.[8]

There are several national networks of community organizations that work in low-wage communities and organize around economic issues.[9] These organizations are particularly active in campaigns to raise the state minimum wage, in living-wage campaigns, and in efforts to redirect the targeting of economic development subsidies. In addition, they also organize around job training and other policies directed at low-wage employees. One of the nation's most successful job training programs, Project QUEST, which is described on p. 223, was established by a community organization in San Antonio. The network of affiliated community organizations then replicated it in several other cities in the Southwest.

Worker Centers are organizations that provide legal and social services to low-wage, often immigrant, workers who are employed in the small firms that populate much of the low-wage labor market. These small, scattered employment sites are not attractive targets for traditional union organizing campaigns. The centers started growing in the 1980s, beginning with the first and still best known of these, the Workplace Project in Long Island. Today, there are roughly 35 in the country (Fine 2006, p. 10). In addition to their service function, some centers try to replace street corner hiring with organized hiring halls (for example, near Home Depot stores) that in turn attempt to standardize wages. They also run campaigns aimed at the employment practices of specific employers. Some centers have also pursued a legislative strategy. For example, the Workplace Project succeeded in obtaining passage of the New York Unpaid Wages Prohibition Act, which seeks to stop the practice of employers holding back promised wages from a vulnerable population.

It is clear that in the national context, 35 Worker Centers cannot accomplish a great deal. However, when all of the representational activity outside traditional union channels—community organizations as well as Worker Centers—is added up, it is fair to conclude that there is an important amount of activity. A central and very open question is whether these newer styles of organizing can join together with traditional unions to obtain the power necessary to have a noticeable impact.

New Standard Setting Strategies

As we will see, in recent years much of the creativity in programs has occurred at the state and local levels, and by the same token, it is at these levels of government that innovative ways of setting standards in the labor market have also been implemented. These efforts include living wage campaigns, community benefit agreements, and restrictions on the use of economic development incentives. These efforts combined constitute a sustained national movement to use political power to raise wage levels.

The first living wage ordinance was passed in Baltimore in 1994 as a result of organizing by a community group affiliated with the national Industrial Areas Foundation network. Since then, according to the ACORN Web site that tracks the movement, there are 140 ordinances throughout the country.[10] There is considerable variation in the coverage and structure of the laws, but the majority cover city contractors, city employees, or both. A smaller set of living wage laws are aimed at firms that receive business assistance from public sources.

Living wage campaigns, and the resulting ordinances, have multiple goals. Beyond the direct effect, one important objective is to use the campaigns as an organizing device and to force a public discussion of economic equity. Although difficult to measure, observation of campaigns suggests that living wage campaigns are important in this regard. However, for the purposes of this chapter, we seek to determine the impact of the campaigns upon job quality.

The first point to be made is that the impact, positive or negative, is relatively small given the restricted nature of the ordinances. The estimate for Boston, for example, is that 1,000 employees had wage increases. The largest effort is probably Los Angeles, where estimated impact is on the order of 7,500 workers. However, the Boston experience is more representative. The magnitude of the mandated wage also varies albeit within a limited range. As of 2002 the ordinance in Boston set a wage of $10.25 an hour, while in Los Angeles it was $8.17.

There is an emerging evaluation literature on living wage campaigns. What is striking is that even skeptics concede that the ordinances are successful in raising wages. The debate is over whether there are negative employment effects, but again, even the skeptics accept that if there are negative effects, the wage gains outweigh the costs, and that as a result there is a net benefit to the low-wage group.[11] Studies of the impact on firms do not find major negative effects, and some suggest that turnover is reduced as a result of the higher wages. In short, living wage laws seem to accomplish their mission, but it is important to remember that the mission is very limited in terms of scope.

An extension of the living wage idea is to establish wage (and possibly benefit) standards on an industry basis. For example, a large majority of the Chicago City Council recently passed an ordinance that required large retailers in the city to pay a minimum wage of $9.25 an hour, with scheduled increases to $10.00. In addition, the employers were required to either provide $1.50 an hour (with a scheduled increase to $3.00) in benefits or else supplement the wage by the same amount. This ordinance was vetoed by the mayor, but a campaign is under way to elect enough city councilors to override the veto. A number of advocacy groups are considering or launching similar campaigns in retail and other industries in different parts of the country.[12]

A second initiative aimed at improving job quality through state and local government action manages the use of economic development incentives. These incentives, which are widely used by both states and cities, offer a variety of tax breaks and incentive payments to firms to influence their location and growth decisions. Until recently there was little public discussion or awareness of the terms of these deals. A rough sense of the scope of the problem is that, according to an analysis of Illinois data, 35 percent of jobs subsidized by economic development incentives in 2004 paid less than $27,000 a year. As recently as 1994, only six jurisdictions put any restrictions on the wage levels that could be subsidized by these development incentives. By contrast, the most recent estimate is that 43 states, 41 cities, and 5 counties have wage restrictions in place for at least one of their subsidy programs (cities and states can, of course, have multiple subsidy programs, and there is no estimate what fraction of all such programs have wage standards). In addition, 10 states require that any firm receiving a subsidy provide a public report on the number of jobs that it expects to retain or create as a result of the subsidy and the wage level of the jobs (see Purinton et al. 2003 and McCourt et al. 2006).

Community benefit agreements (CBAs) are in some sense a combination of efforts aimed to control location subsidies and living wage campaigns. The central idea is to identify a large development project that requires city approval. A coalition of community groups then negotiates with the developer regarding first source hiring, wage standards, and other topics such as parking, affordable housing, and recreation. If an agreement can be reached, the coalition becomes an ally of the developer in obtaining the relevant approvals. Among the most active geographies for CBAs has been Los Angeles, where coalitions organized and supported by the Los Angeles Alliance for a New Economy (LAANE) have negotiated agreements in the Los Angeles airport, Staples Center, and Century Blvd. developments. Similar efforts have been initiated in Denver, Milwaukee, Boston, Seattle, and Chicago (for a description of CBAs, see Gross, Leroy, and Janis-Aparicio [2005]). As promising as CBAs are, there are also obvious limitations: they typically only benefit residents in the area of the large-scale development and the labor standards tend to be modest.[13] Nonetheless, they are a creative addition to the toolkit of efforts to use a combination of political and standard setting power to upgrade job quality.

A final important issue regarding standard setting in low-wage labor markets concerns enforcement. There is a perception among advocates that enforcement efforts and effectiveness has declined in recent years. Data on this are hard to come by, but a recent review of patterns in New York City does suggest that there are significant problems, particularly with respect to overtime pay and minimum wages.[14] Improving this situation is the joint responsibility of both the federal government and state Departments of Labor.

PROGRAMS THAT WORK WITH FIRMS

It is slightly unfair but not too far off the mark to characterize the old style approach to service delivery as one in which agencies trained people in occupations for which they thought there was demand and then either simply sent people out to look for work or helped them in the process. In either case, the connection between programs and employers was tenuous at best. While many programs may still have these characteristics, a new model of best practice has emerged in recent years that features much more interaction with employers.

Programs that work with firms to improve the quality of jobs focus on two main strategies. The first is redesigning jobs to create career ladders or to enlarge the content of existing jobs. This strategy implies both working with management to redesign work and providing training and support to employees so that they can meet the additional responsibilities and move up in the workplace. The second, simpler approach is to encourage firms to increase the quantity of training that they make available to lower paid employees in the hope that this will lead to career advancement.

The new program models vary along a number of dimensions: target groups, the auspices under which the programs are managed, and the nature of the services that are provided. What is striking, however, is that they have also coalesced around a common set of what might be termed "best practices" elements. It is these elements that move these innovations beyond the traditional approach of education and training programs and that make these new programs distinctive and important.

The most important of these best practice elements is driven by an understanding that employment and training efforts work best if they connect effectively to both sides of the labor market, that is, to employers as well as clients. In order to accomplish this they work hard to become knowledgeable about the human resource needs of their target group of firms and, in some cases, they also seek to understand how they can contribute to the competitive success of the firms. In short, they seek to appeal to firms as a business proposition, not as a charity, public relations, or welfare effort.

The second feature is that best practice programs make substantial investments in their clients. They reject the quick and dirty training, short-term investments, and simple job search assistance models that characterize much of the traditional education and training system. The investments that the new programs make take a variety of forms: long training periods, more sustained involvement with firms, and higher levels of support to clients in terms of financial assistance and counseling.

There are, however, important differences across the programs. Their auspices vary and include community groups, unions, community colleges, employer organizations, and state governments. The programs also vary in the extent to which they work with incumbent workers versus job seekers.

Much, but not all, of the discussion around these new models tends to focus on two broad program categories: labor market intermediaries and sectoral programs. Labor market intermediaries are organizations that consciously look both ways in the job market, attempting to work with both employers and with individuals. Some intermediaries are passive in that they effectively are just bulletin boards, providing matching services for firms or workers. Others are slightly more ambitious and take job orders from firms and try to find or train employees to fill them. However, the most creative intermediaries provide a range of services to employers, including what might be termed "HR Consulting" aimed at improving job quality. These intermediaries also work with individuals providing training and placement for their client firms. Sectoral programs perform the same functions as do intermediaries, but they have the added characteristic of specializing in a particular industry. They seek to develop deep knowledge of the markets, technology, and labor market circumstances of the industry, and through this knowledge contribute to both the human resource and also the economic growth and development needs of the industry. Both sets of organizations try not only to improve access to jobs but also to help make bad jobs better and to create more good jobs. The relative weight put on these goals varies across different programs. Examples of programs include the following:

Cooperative Home Care Associates (CHCA) works with low-paid home health care aides and seeks to transform the nature of their work by creating a workers' cooperative, providing more training and skill than is typical, and leveraging this to charge a higher than average wage/benefit package and create a larger proportion of full-time work than is the norm. The model has been successful in New York City and is replicated in other locations by the Paraprofessional Health Care Institute.

Boston SkillWorks. Several regions have pulled together funding streams and established intermediaries to work with firms to upgrade low-wage workers. Boston SkillWorks has received funding from public sources and several local and national foundations and is a five-year, $15 million dollar effort. Managed by a local intermediary, Jobs for the Future, it has established career ladder programs in several local hospitals and is working to do the same in the hotel/hospitality industry and in building services. Its goal is to upgrade roughly 2000 incumbent workers and to provide preemployment training to roughly 500 new hires.

Pennsylvania Industry Clusters. A number of states have been very aggressive in pulling together disparate funding streams to create a more unified workforce policy (for a description of some of these efforts see Jobs for the Future [2005]). Many experts in economic development believe that an effective strategy is to identify clusters of firms in the same industry and work with them to address challenges that they have in common. Pennsylvania has applied this idea to its approach toward workforce development. The state identified 9 industry clusters and 17 subclusters. It then established a $20 million annual appropriation to organize and deliver training through cluster-specific "industry partnerships." It also reprogrammed existing federal and state community college funding to target the skill needs of the clusters. Industry partnerships must have an explicit strategy that spells out how the workforce services will improve industry competitiveness and job quality.

Extension Services, such as the Massachusetts Manufacturing Partnership and the Jane Addams Resource Corporation. The Massachusetts program helps firms adopt the Toyota Production system. It works with individual companies and sponsors events at which firms make presentations as well as plant tours. The Massachusetts program is essentially a technology/production assistance program that has a workforce development component. The relative emphases are reversed at the Jane Addams Resource Corporation in Chicago, which works with small manufacturers in a corridor within the city. The activities of Jane Addams show that an extension service can both provide a range of services and serve as a link between the economic development and the workforce components. Jane Addams is part of the Local Industrial Retention Initiative and helps firms obtain various forms of technical assistance and services from city agencies. It runs a large (400 trainees per year) incumbent worker training program, as well as an entry-level machinists training program for unemployed residents. Jane Addams is also active in an effort to develop a small high school devoted to machining skills, and an initiative to benchmark and improve the manufacturing skills training provided by the community colleges within Chicago.

Project QUEST. QUEST is a training program in San Antonio, Texas aimed at the working poor who have high school diplomas. The program works with firms in San Antonio to identify job openings and to identify the skills required. The firms then make a good-faith pledge to hire program graduates and may redesign their jobs to create ladders. The jobs must meet living wage standards. The training is provided by local community colleges and typically lasts one and a half years. The program provides modest financial support and extensive counseling to the clients. It is organized and managed by a nonprofit organization that is closely linked to a community-based organization. Over 2,000 people have participated in QUEST.

What Do These Programs Do?

These programs have various strategies for improving job quality, but the most common are attempts to create career ladders and to enlarge jobs. The most extensive efforts along these lines have been in the health care sector, including hospitals and nursing homes. An example, which comes from programs in Boston, is the creation of a ladder associated with the job title Patient Care Technician. This is a low-level job, essentially the hospital equivalent of the nursing home title Certified Nursing Assistant. An associate's degree or the equivalent is required to move up the ladder from this job in a hospital. Boston SkillWorks worked to create a ladder by encouraging hospitals to establish Patient Care I, II, and III positions with increasing responsibility, and to provide tuition assistance to enable people to study as they moved up the ladder. The new positions on the ladder provided both greater rewards and tangible feedback as people undertook the effort to move up.

There are a large number of efforts around the country to build ladders of this kind in hospitals and nursing homes (Fitzgerald 2006). Many of the largest and best known health care programs have been negotiated by the SEIU union health care locals, although there are also many examples in the nonunion sector, such as the Boston one cited above. The Robert J. Woods Foundation is currently supporting roughly a dozen demonstration programs around the country that focus on how to build more learning opportunities directly into health care workplaces.

There are also small programs to create comparable ladders in other low-wage settings, such as hotels and retail. For example, Work-Source Partners, a firm that helps employers build career ladders, has a small effort under way with the CVS Drugstore chain to create a Retail Management Certificate program to move check-out clerks into pharmacy technician and potentially store manager positions. The effort is supported in part by state (of Massachusetts) training funds and in part by CVS, which finances some coaching and support as well as some paid released time and tuition assistance. It is worth noting that CVS's interest in creating career ladders is long-standing. For example, a case study conducted in 2000 described CVS as exemplary in attempting to upgrade low-skill workers through career paths and training (Ahlstrand, Bassi, and McMurrer 2003, pp. 65–74). Given, however, that the certificate program described above is still characterized as a pilot effort, a reasonable conclusion would be that even in a large organization with a commitment to the issue, change is very slow and incremental.

Some of the efforts, particularly in health care, are quite large. Outside of health care, however, most programs are still small and of the pilot variety. These career ladder programs are typically at least partially funded by public or foundation training resources, although some of the union-linked programs are financed out of funds set aside in collective bargaining agreements. The motivation of employers, beyond social responsibility, is to reduce turnover (with its associated impact on recruiting costs and perhaps customer service) and increase labor supply into occupations for which they are experiencing shortages.

Assessing the Interventions

As promising as career ladder programs are, there are several difficult questions. The vast majority of the efforts are in health care (for reasons discussed below). How far these kinds of programs can extend beyond health care and whether the business case (reduced turnover, better service) is really compelling is unclear. Unfortunately, the most comprehensive review of career ladders suggests that these worries are legitimate. Fitzgerald (2006) reviews career ladder efforts in several other industries than health. For child care she characterizes the current state of play as “embryonic” (p. 63); in education she writes that “neither school officialdom nor the public is entirely convinced that significant skill upgrades are even possible among school paraprofessionals or are worth the money” (p. 92); and in biotechnology she concludes that “it is too early to say much about the results” (p. 118). Only in manufacturing is there very much to show, and here the star example is one program in Wisconsin.

A thoughtful evaluation of the experience of one highly touted program reinforces these worries (FutureWorks 2004). In 2002 Massachusetts launched its BEST (Building Essential Skills through Training) program. The initiative combined Adult Basic Education and flexible job training money and sought to work with firms in health care, financial services, manufacturing, and biotechnology to upgrade workforce skills and to build career ladders. The program was the result of a task force which issued the standard critiques of the employment and training system (narrow and constrained funding streams, and lack of employer involvement), and BEST was a state of the art response with respect to program design and flexible funding. The goal of the program was to create career ladders for low-wage workers in the targeting sectors.

Of the six sectoral programs, two did very poorly on all dimensions because of staffing and implementation issues. The remaining four programs did succeed in training a relatively large number of employees. However, virtually all of the training was short term. Even in the consortia with the greatest employer enthusiasm, it proved very difficult to convince firms to care about anything other than short-term staffing needs. Firms were not willing to invest in career ladders: “Some employers had a hard time visualizing their entry-level workers as higher skilled employees. Others simply lacked the internal capacity required to promote career path development among their entry-level workers” (FutureWorks 2004, p. 21). The report goes on to comment that

> . . . employer support and implementation capacity for career path development is in its infancy. While employers may support the career path notion in theory, few human resource directors, managers, or supervisors . . . have the time or resources required to institutionalize the approach . . . it remains unclear whether limited demand for career path models is due to lack of information (i.e., employers are simply unfamiliar with the concept and need more/better information about career path models), lack of time and re-

> sources (i.e., employers don't have internal resources to develop and implement the approach) or due to employer perceptions regarding entry level workers (i.e., employers have difficulty viewing entry-level workers as future skilled labor). (p. 28)

The evaluation did document a substantial amount of training, particularly in basic skills, but it was unable to attribute any gain in wages or career trajectory to the program.

The BEST program lasted for two years. On one hand, this can be seen as a sustained effort to implement a new model. On the other hand, two years is relatively short in terms of the goal of changing the employment practices of firms. However, what is clear from the experience is that the energy, organizational skills, and resources for such an effort need to come from the program and the intermediary. Few of the employers who were involved were willing to continue the training of entry-level workers after the program ended, much less engage in the organizational changes envisioned by the program (FutureWorks 2004, p. 39).

A more optimistic, but still very mixed, experience in manufacturing was documented in a recent report on a project funded in 2001 three foundations (Mott, Ford, and Annie E. Casey) and managed by the National Association of Manufacturers (NAM) (Whiting 2005). The goal was to assist three local NAM chapters (in Connecticut, Michigan, and Pennsylvania) in their efforts to work with five small and medium-sized manufacturing firms with the dual mission of improving their internal human resource processes and upgrading low-wage employees in their labor forces. Representatives from each association recruited firms to participate and then provided them with technical assistance on their recruitment, training, supervisory, and compensation systems. In addition, the program brokered training services for employees in the firms.

The results of this effort, which ended in 2004, were positive but mixed. The project was slowed initially by the recession and fell one year behind schedule. As a result, the formal evaluation that was planned was scrapped. Recruitment of firms was slow, but in the end 17 firms were involved. The narrative report points to employer reports of improvements in productivity and quality, and a variety of positive comments by employers are cited. These are credible achievements. However, after three years of effort, the best claim in terms of advancement is that a total of 14 promotions and 28 pay increases could be attributed to the program. Furthermore, the employers reported that without a continued subsidy they would be unlikely to continue with the program.

Beyond narrative accounts of specific programs, systematic research on these models is thin. Although these new models have gained substantial attention in policy circles, there are limited data on either their diffusion or effectiveness. A 2002 survey by the National Network of Sector Partners identified 243 organizations that met four criteria: 1) they worked with both employees and employers, 2) they targeted low-wage workers, 3) they provided a mix of services and not simply job placement, and 4) they invested in longer-term career advancement past the placement stage. More than half of these programs were less than 10 years old, and two-thirds of them served 500 or more persons per year. They were housed in a wide range of different kinds of organizations (Marino and Tarr 2004).

The more formal evaluation evidence on these initiatives is promising but incomplete and thin. A pre/post evaluation of Project QUEST found very large gains for participants, and as part of that evaluation, a study of participant files suggested that creaming and self-selection effects could not explain away the gains (Osterman and Lautsch 1996). A qualitative evaluation reached positive conclusions about the ability of sectoral programs to achieve their goals, and a pre/post evaluation of six intermediary and sectoral programs by Public/Private Ventures found, 24 months after program completion, gains from $1–$5 per hour in wages for five of the organizations (Grote and Roder 2005; Pindus et al. 2004).

Alternative Strategies for Working with Firms

The programs described above work with low-wage firms to improve the quality of work by redesigning both jobs and job ladders. The most common alternative (but also complementary) approach is the straightforward one of increasing the training investments that firms make in their low-wage employees so that mobility prospects, within the firm and elsewhere, are improved. Recall the earlier evidence that the pattern of firm training expenditure is biased away from low-wage and frontline workers. Of course, an obvious question is why firms would be willing to train employees if this facilitated their departure to other (albeit better) employers.

There are a range of programs, typically at the state level, that aim to increase employers' investment in training. A number of states provide tax credits to firms for employees who complete certified retraining programs. However, there have been no efforts to assess these programs either in terms of direct impact or whether they expand the scope of training rather than simply subsidize firms for what they would have done in any case (Bosworth 2006, p. 43).[15] There are other ideas for using the tax system and financial aid to increase the training investments of firms, which will be taken up in the next section.

A more direct approach to transforming the employment practices of firms is to provide them with grants to subsidize or incent improved practices. We will see below that a number of states have established state training funds along these lines. There have been virtually no evaluations of these efforts, but one study of a Michigan program in the early 1990s found that firms that received training grants did increase their level of training for the period of the grant (although not beyond) and also achieved productivity gains (in this case, reduced scrap rates) that persisted beyond the grant. The pattern of the training outcomes is good news/bad news. The good news is that the grant did not simply subsidize what the firm would have done anyway. The bad news is that, despite evident performance gains, the HR practices of the firms were not shifted to a "higher road " since the increase in training was not sustained (Holzer et al. 1993).

Other attempts to convince firms to improve their human resource practices rely on publicity and jawboning. For example, the Council for Adult and Experiential Learning (CAEL) in Chicago has organized an effort called Workforce Chicago. This model brings together leading local firms to award and publicize best practice with respect to workforce training. There is considerable local publicity, the political establishment has become involved, and the winning firms hold workshops for other companies on how to implement their practices. There is an active Web site and a quarterly newsletter. In addition, the organization has sought to be a forum for bringing together the business community with the higher education leadership to discuss common issues.

Local political leaders and sponsors find the model compelling enough to try to spread it to other cities. There are comparable efforts now under way in Philadelphia and St. Louis, and CAEL has presented to the National Conference of Mayors. This said, there has been no assessment of how effective this effort is in influencing employment practices (there is a certain “preaching to the choir” element to the effort) or in improving the circumstances of frontline employees in particular.

Some Lessons on Working with Firms

Stepping back from these various efforts, it is useful to ask what are the lessons about the challenges of working with firms to upgrade low-wage workers. A helpful first question is to ask what are the characteristics of the firms that seem willing to work with employment and training programs to upgrade their workforces. In surveying the landscape of programs it is hard to avoid being struck by the disproportionate role that health care firms play in programs. For example, the vast majority of career ladder efforts are in health care. If we ask why this is the case then we can begin to understand what motivates employers.

Health is, as we saw earlier, a sector with large numbers of poorly paid employees and hence is a natural target. In addition, the overall shape of employment in the health sector is conducive to ladders in that there are multiple levels of jobs and a progression path. Other sectors, such as hotels, have more narrow pyramidal employment ladders, offering fewer opportunities for upward movement.

There is, however, more to the story about why health is an attractive target. Health care employers are not footloose; they cannot pull up stakes and move to a location with lower wages. Furthermore, they tend to be dependent on various public policies: licenses, approvals, and the like. Both of these factors lead health care employers to be willing to consider participation in these efforts. Adding to the incentives is that many health care employers experience high turnover and difficulties in maintaining a stable workforce. This increases their costs and also reduces the quality of their services. The programs that we have described promise to address these issues. An additional consideration is that many hospitals are unionized, and the unions, particularly SEIU and ASFCME, have been very interested in building career ladders. A final consideration is that at least a subset of health care employers can be reimbursed via federal and state payment schemes for the expenses of the effort.

When all these factors are taken into account, it is not surprising that efforts to upgrade the quality of work have had the greatest success in health care. But the flip side is that it is also clear why making progress is so difficult in other sectors of the economy where many of the underlying supports and incentives are absent. Accounts of working with firms point to several difficulties (in addition to the absence of the considerations cited above for health). These difficulties can be seen in the BEST initiative, which worked with small employers in a variety of industries and in the NAM project, which focused on small manufacturers. Small and medium-sized firms that employ low-wage workers lack the organizational slack to improve their human resource systems. Their managers are stretched thin, and the human resource specialist (if there is one) also performs multiple functions and lacks the time and resources to radically transform the employment system. A sense of the difficulties can also be gained from the findings of a task force that interviewed small and medium-sized manufacturers in Indiana. The report found that the firms 1) "see no quick payback and little financial incentive since investments in human capital do not receive as favorable tax treatment as investments in physical capital," 2) "fear that they will be unable to secure the benefits of training investments as higher-skilled workers might move to other firms," 3) "are not confident that they can predict changing skill requirements much less design the mix of training and new skill development that will adequately prepare their workers," and 4) "don't know much about the education and training systems" (Ball State University 2003).

Small firms are difficult targets for the reasons cited above and because of the tremendous effort required to reach a substantial number of workers (given that small firms are small). However, there are also significant challenges in working with larger employers. Even in these companies there often is no advocate for transforming the work of low-wage employees. American firms are notorious (in comparison to companies in other countries) for the relative weakness of the human resources function, and hence there is no natural constituency with power pushing for investment in the low-wage workforce (Pfeffer 1994). Furthermore, many managers, in both large and small firms, are skeptical of the gains that could be achieved by upgrading their low-wage workers. It is only when top management "gets religion" that there is an opportunity to work with firms, and the task of propagating that religion and selling it within the organization is slow and difficult.

Summary

In the past decade there has been a good deal of investment and creative experimentation in working with firms to improve job quality. These initiatives have disproved one long-standing misperception: that employment and training policy is ineffective. We know that it is possible to design effective interventions that upgrade the quality of jobs and improve the working experience of low-wage employees. In addition, a clear consensus has emerged around the elements of a best practice model.

Despite these accomplishments, however, it is not clear just how far it is possible to go with interventions of this kind. As the BEST and NAM experiences make clear, making progress is very slow and runs up against the natural difficulties of working with employers who have many other concerns on their minds and who do not have a history of interest in human resource issues. Even some of the more successful models, such as Boston SkillWorks, were many years in the making and impact a relatively small number of employees in a limited range of industries. In addition, there is ample room for knowledge development. We do not know, for example, whether models of this sort are most effective when implemented by community groups, unions, or business associations.

A final issue is that these program models cannot succeed in a policy vacuum. In order for employees to move up a job ladder, or in order for them to simply receive training, traditional training programs need to have an appropriate level of resources. In addition, work supports of various kinds are important to enable the low-wage workers to succeed. The programs are thus challenged on scale along two dimensions: first, whether they can inherently work on a large enough scale to make an impact, and second, whether public resources will be available at an appropriate level to enable whatever degree of success is possible.

MOVING FORWARD

Improving low-wage work is the next frontier of labor market policy. In an era of exploding income inequality and welfare reform that has encouraged many people to join the low-wage labor market, it is essential that the United States systematically asks how to improve the quality of jobs. This challenge is given additional urgency by the evidence that upward mobility out of the low-wage job market is very slow and uneven.

If we look back at the evidence presented in this chapter, several broad conclusions stand out:

- There is a great deal of program activity and creativity on multiple dimensions and using multiple strategies. A wide range of actors, public and private, are involved. There are examples of interventions that work, and other examples of promising interventions should be supported and assessed.
- The program activity, while substantial, is well below any reasonable estimate of what is required based on the universe of need. Perhaps more importantly, it is scattered and in no way constitutes a coherent national strategy or commitment to addressing the challenge of improving job quality.
- Any successful effort to improve the quality of jobs must include both standard setting and programmatic components. The standard setting strategy is important because it is scalable, i.e., it impacts a large number of employers, and because it can influence practices among small firms and firms in sectors such as retail, which are difficult for programmatic efforts to reach. Whenever possible, it is desirable to offer firms programmatic assistance to achieve the standards.
- On the programmatic side, it is important to bring to bear a wide range of institutions, including traditional federal employment and training programs, state customized training, economic development and small firm assistance programs, and new institutions such as intermediaries and sectoral programs.
- This chapter has emphasized efforts to improve the employment practices of firms. It is clear, however, that more traditional hu-

man capital training programs are of continuing importance both because of skill gaps in the low-wage labor force and because any effort to work with firms must include strategies for upgrading the workforce.

In short, the matrix presented earlier is a useful guide. We need to make bad jobs better, and we need to create more good jobs. In addition, any effective national strategy should include a combination of carrots and sticks. A strategy that relies entirely on training and economic development programs working directly with individual employers or employer groups could achieve a good deal but is also slow and incomplete in its coverage. A strategy that supports increased unionization and better wage and hour standards would impact a larger number of employees but lacks the tools to help employers meet their responsibilities. Some combination of the two approaches seems optimal.

A Prelude: The Current State of Play

The central Federal Employment and Training program is the Workforce Investment Act (WIA), but in recent years overall funding levels have been flat, and even the diminishing resources that are available have been diverted from training and instead are spent on job-matching functions (the One-Stop Centers).[16] In addition, restrictions on WIA funding mean that very little can be spent on working with firms to upgrade their employment systems. As a result of falling federal investment in the employment and training system, the real action has shifted to the states and to foundations. Foundation funding has been crucially important but is not a sustainable basis for building public policy. State funding for programs working with firms is largely found in the state training funds based on the unemployment insurance system.

These funds were first started by California, with its well-known and largest fund, the Employment and Training Panel (ETP).[17] The California ETP was financed by a small diversion of the unemployment insurance tax into the training fund, which set the pattern for many states. Today there are seven states that finance training funds via some draw on the UI tax system, but there are another 16 states that have comparable funds that simply use an employer tax. These state training funds range quite widely in size, ranging from $100,000 per year in Delaware to over $70 million per year in California. They all support training for incumbent workers, and 14 also support training for new or pre-hire employees. They typically require an application from a firm as well as, often, from a training provider or intermediary. Roughly 10 of the states seem to primarily use their programs as an economic development tool to attract new firms; however, in the remainder of the states the funds are potentially an important resource for improving the prospect of low-wage incumbent employees.

There are relatively few linkages between these funds and other employment and training funding streams. The states vary widely in how they measure impact and potential substitution (firms using the program to support what they would do anyway), and overall there is little that can be said with confidence in terms of assessment. The great advantage of these funds (in addition to simply the existence of the resources) is that they tend to be much more flexible than federal money with respect to targeting and allowable activities. However, as noted, many of these funds do not address issues in the low-wage labor market, and only half of the states have any such funds in the first place.

The other key player is the community college system. These institutions are by far the largest occupational training organizations, and many of their students are low-income adults. In 2000, among all college students, 29.6 percent were in community college occupational training programs, and another 28.7 percent were in other community college tracks. Of the students enrolled in occupational training, 64 percent were in associate's degree programs, with the remainder in certificate programs (Bailey et al. 2004). The profile of the students suggests that community colleges touch the working poor population to a nontrivial extent. Fifty-five percent of students in occupational programs are 24 or older, 39 percent are minority, and two-thirds attend part-time. Eighty percent of community college students work full or part time while in school (Brock and LeBlanc 2005, p. 2). Another indication is that among first-time community college students between the ages of 25 and 64 in 1995–1996, 71 percent were in the lower two income quintiles compared to 50 percent of younger students (Prince and Jenkins 2005, p. 2). Most of what community colleges do is straightforward education and training—not the kind of activity that has been the focus of this chapter. However, many community colleges have implemented customized training programs that work directly with firms in their regions.

The Road Ahead

Today there is no national framework or set of institutions for supporting efforts to upgrade low-quality jobs. The lack of these institutions in the labor market field has been contrasted with the creation of LISC, the Enterprise Foundation, and the Low Income Tax Credit as an integrated national effort to address housing quality.[18] Several national foundations (notably Ford, Casey, and Mott) have sought to build equivalent institutions for the low-wage labor market. The foundations have succeed impressively in funding demonstration efforts and also in supporting nonprofits that provide technical assistance. However, in the long run a model based on foundation support is not sustainable nor can it operate on the appropriate scale.

As already noted, there are promising strategies for working with firms, many of which have been implemented by an impressive range of actors, including business associations, non-profits, labor market intermediaries, and unions. One central problem, however, is that these efforts are underresourced. It is, of course, not surprising to hear a claim that more money is needed, but the problem goes beyond simply the level of funding. In general, the existing federal funding structure does not support what some have termed the “core intermediary functions” of organizing firms, working with their human resource staff, designing career ladders, and supporting employees. Rather than seeing these functions as central, federal programs view them as overhead or “administration” and sharply limit the amount of resources available.

Taking into account both the federal and state funding streams and the substantive issues raised by these streams, two important federal policy initiatives are attractive. The first aims to create a federal program and framework to support innovative intermediaries and other programmatic initiatives. The second tries to change the incentive structure confronting firms as they decide how much to invest in their employees.

The Department of Labor should establish a “Low Wage Challenge Fund” for supporting programs that work with firms to upgrade the jobs of their low-wage workers. In addition to directly funding programs, matching resources should be available to incentivize states to establish or increase their customized training fund programs and to orient these programs toward the low-wage/low-skill workforce.

The Low Wage Challenge Fund would systematically fund policy entrepreneurship. As already noted, the past decade has seen an impressive flowering of new program designs. At the same time it is also true that there is a series of unanswered questions about these efforts that need to be studied and evaluated, not the least of which is the standard question about impact. In addition, these programs vary considerably in their auspices (who sponsors and runs them), in the role played by support services, and in whether they aim at particular industries or sectors or whether they provide broad occupational training.

The fund would be structured to play the same role, but on a larger scale, that the foundation world is currently playing. That is, the fund would support innovative program models and also seek to leverage the resources of other systems, notably the state training funds and the community college system.

The goals would be to provide incentives for states that currently do not have such funds to establish them (about half the states) and to move the funds away from their smokestack-chasing character and toward well-designed training for low-wage employees. There are already best practice states in this regard. For example, New Jersey has a "Supplementary Workforce Fund For Basic Skills," which provides resources for literacy and Adult Basic Education training in firms, and Florida gives extra points in its application process to proposals that focus on low-wage workers.

The goal of working with community colleges is to take advantage of the resources of this very large system that already educates large numbers of low-wage workers. Including the manufacturing extension services in this effort is also desirable because it speaks to the need to maintain the base of good jobs that we already have.

It is worthwhile to use federal resources to match and stimulate state training funds and community college programs because it levers additional resources. In return for federal matching, the state training funds should establish procedures to assure that any support they provide to firms represents a net addition to the firms' training efforts directed to low-wage workers (and does not simply substitute for what the firm would otherwise have done), and that the programs are subject to credible evaluation.

The second broad goal is to reorient public policy to alter the incentive structure facing firms and to encourage them to improve the quality of the jobs that they offer. A key issue here is training expenditures. As we have seen, employer training is biased against low-wage workers. A few states attempt to address this problem by offering tax credits to firms that increase their investment in training their less well-paid employees; however, these programs are scattered and little is known about them. A federal tax credit for incremental (additional) training that was directed to low-wage employees would be an important step forward. It would be important to design the credit so that it targets the group of employees who need the extra boost and so that it is not a windfall that rewards firms for what they would do regardless. There are also good reasons to insist that the training lead to a general credential that provides mobility to the employee, although this needs to be weighed against likely reluctance of firms to invest in training that encourages their employees to leave. (A proposal along these lines can be found in Bosworth [2006]).

Strengthening Standards in the Low-Wage Labor Market

An increase in the federal minimum wage is long overdue. In addition, it is important to find ways to level the playing field for union organizing. The real concern about the role unions might play in reducing low-wage employment is not whether, when in place, they improve employment conditions but rather the fact that their success rate is poor. These negative trends in membership and campaign success rates continue even though numerous surveys suggest that a substantial fraction of unorganized employees would like to be represented by unions (see Freeman 2007). This pattern suggests that something is broken in the system established by the National Labor Relations Act.

A good deal of effort is being devoted internally in the union movement to raise the rate of union success. These efforts include putting more resources into organizing, being more strategic in designing organizing campaigns, and considering new models of representation, such as membership organizations without collective bargaining rights. On the national agenda are attempts to reform labor law to speed up elections and to reduce the incentives of employers to delay and to engage in unfair labor practices. One currently popular (in union circles) proposal calls for card-check campaigns. Such procedures are of growing importance (see Brudney 2005). There is not uniform agreement, even among those sympathetic to unions, that the card-check strategy is the best approach. However, it is clear that finding ways to level the playing field for unions in the low-wage labor market is an important component of any strategy.

The third arrow in the standard setting quiver is to strengthen the use of economic development incentives to create good jobs. Here it is important to continue the trend of assuring that tax abatements and economic development subsidies are only available if they lead to good jobs. Much of the responsibility for this rests in state governments, and the role of the federal government would be to advocate and diffuse best practice. However, federal programs should also walk the talk with respect to the wage standards embodied in the Workforce Investment Act, TANF training programs, and other federal efforts.

CONCLUSION

America is a wealthy country, and in recent years productivity has resumed its upward climb. Yet despite this success, low-wage work is not only far more prevalent than seems appropriate, but the share of employment that is below acceptable standards is increasing. The difficulty that low-wage workers have in escaping the bottom of the labor market makes these patterns even more troubling.

The first step to addressing this is a real national commitment to the problem. There have been periods—for example, the New Deal or the War on Poverty—when labor market issues have been a central concern of public policy. Unfortunately, in recent years this has not been the case, and advocates have not been able to articulate a convincing narrative that makes the case for serious policy steps to address the bottom of the job market. Nor has the political will been present. The success of recent state-level minimum wage campaigns and local living wage campaigns suggests that the political situation may be shifting. However, years of skepticism about what government can accomplish have undermined confidence that the problem can be resolved. As a result, the challenge remains of making a convincing case that effective policy is possible.

This chapter has described a multilevel strategy for improving job quality at the bottom of the labor market. A combination of standard setting and assistance to employers in upgrading their human resource policies holds promise. In my view both prongs of strategy are essential. A pure programmatic job training or sectoral strategy will run into significant difficulties of scale and will also have problems reaching the smaller firms, which are significant employers of low-wage workers. Standard setting plays a key role of giving firms incentives to participate in the programmatic efforts because those initiatives enable them to more productively achieve the standards. In addition, standard setting will reach smaller firms while programmatic approaches may not.

For these efforts to succeed, adequate resources need to be available for job training, for work support, and to support the intermediary organizations that work with firms. Much of the real work needs to be done at the local and state levels, but the federal government has a central role to play both with respect to resources and standards. This chapter has tried to be realistic about what is possible and to recognize the limitations of any set of programs. At the same time, there is reason to be optimistic, and an ambitious commitment to upgrading low-wage work can have an impact. We have learned a great deal about what works, and the next step is to implement what we have learned on a large enough scale to make a real difference.

Notes

1. This is based on an analysis of the census Outgoing Rotation Group (ORG) data. The wage standard is based on the poverty level for a family of four and assumes 2,080 hours of work a year. In 2006, this implied an average wage of $9.83 or less. The wage levels for the previous years are adjusted using the CPI to 2006 levels. The sample is limited to adults 25–64 years old who worked in the private sector, and only data in the fourth month rotation are analyzed here. There is an extensive literature regarding the use of ORG data that includes complications regarding the use (or nonuse) of allocated wages, the treatment of topcoding, and the elimination of outliers (among other concerns). In my analysis I have followed the data preparation steps described in Lemieux (2006), which represent the standard steps in the literature. Specifically, I use only nonallocated wages, eliminate outliers according to Lemieux's rules, and adjust for topcoding using the conventions of Lemieux.
2. In the private sector, if we weight each observation by the number of weekly hours worked, then 16.5 percent of hours overall are low wage.

3. For this purpose, the March Current Population Survey is more useful than the Outgoing Rotation Group data used above because, although its hourly wage data are less precise, it contains data on firm size. The wage data are less precise because they have to be estimated using usual hours worked per week and usual weekly earnings. The processing of the data follows Lemieux (2006). The data are weighted by hours worked. The industry and size variables refer to the longest job held during the year while the wage variable is an average over the whole year. I have eliminated anyone who was self-employed at the time of the interview as well as people who report that more than 10 percent of their total annual earnings was due to self-employment.
4. Hollister argues that in recent years the traditional firm size effect on wages has weakened.
5. The data are nationally representative of people ages 25–64 in the for-profit sector who speak either English or Spanish.
6. Both an OLS and a logit regression were run in which the dependent variable was the probability of being low wage and the independent variables included controls for sex, race, education, and a series of industry dummy variables. In the OLS regression the coefficient was 0.109 and highly significant. In the logit the coefficient on union was 1.36 and also highly significant.
7. The research is based on examining what happens to wages in situations where unions win or lose an election by a very small margin. The argument is that in such cases the various forms of selection bias are eliminated. However, it is possible that an effective union can win an election by a large margin due to its power rather than to selection bias explanations, and in such a case the wage gains should be attributed to the union effect. In addition, in a growing number of cases agreements are achieved via card-check and not by elections.
8. The discussion of community organizations draws from Osterman (2003). The discussion of Worker Centers draws from Fine (2006) and from Gordon (2005).
9. These networks include the Industrial Area Foundation, Direct Action Research Training (DART), PICO National Network, Gamamiel, and the Association of Community Organizations for Reform Now (ACORN). The first four organize heavily through congregations and hence are often termed "faith-based" organizations. One recent estimate is that there are 133 of these faith-based organizations throughout the country.
10. See www.livingwagecompaign.org.
11. The skeptical view is summarized and reviewed in Neumark and Adams (2004). The more positive view is summarized in Thompson and Chapman (2006).
12. A resource for data on these campaigns is the Brennan Center for Justice at the New York University Law School.
13. In the case of the Staples agreement the wage standards for 70 percent of the jobs in the project were set at between \$7.72 and \$8.97 an hour and \$100,000 was set aside to support training.
14. According to the research, several surveys show that 67 percent of domestic workers receive no overtime pay even though they are entitled to it, 59 percent of

restaurant employees have the same problem, and small retail stores in Brooklyn routinely violate wage and hour laws. See Brennan Center for Justice (2006).

15. Bosworth reports that these tax credits are available in Rhode Island, Georgia, Arizona, Colorado, Connecticut, Kentucky, Louisiana, and Mississippi.
16. WIA Adult Formula funding declined from $945 million in fiscal year 2002 to $865 million in fiscal year 2006, and of these funds only about 40 percent are actually spent on training, a substantially lower share than under JTPA. See The Workforce Alliance, 2006, pp. 12–13.
17. The material in this paragraph draws from King and Smith (2006).
18. I owe this analogy to John Colborn of the Ford Foundation.

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